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MILLENNIUM CHALLENGE CORPORATION

[MCC FR 13-08]

Report on the Selection of Eligible Countries for Fiscal Year 2014

AGENCY: Millennium Challenge Corporation

ACTION: Notice

SUMMARY: This report is provided in accordance with section 608(d)(1) of the Millennium Challenge Act of 2003, Pub. L. 108-199, Division D, (the “Act”), 22 U.S.C. 7708(d)(1).

Dated: December 13, 2013

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VP/ General Counsel and Corporate Secretary
Millennium Challenge Corporation

Report on the Selection of Eligible Countries for Fiscal Year 2014

Summary

This report is provided in accordance with section 608(d)(1) of the Millennium Challenge Act of 2003, as amended, Pub. L. 108-199, Division D, (the “Act”) (22 U.S.C. 7707(d)(1)).

The Act authorizes the provision of Millennium Challenge Account (“MCA”) assistance under section 605 of the Act (22 U.S.C. 7704) to countries that enter into compacts with the United States to support policies and programs that advance the progress of such countries in achieving lasting economic growth and poverty reduction, and are in furtherance of the Act. The Act requires the Millennium Challenge Corporation (“MCC”) to determine the countries that will be eligible to receive MCA assistance during the fiscal year, based on their demonstrated commitment to just and democratic governance, economic freedom, and investing in their people, as well as on the opportunity to reduce poverty and generate economic growth in the country. The Act also requires the submission of reports to appropriate congressional committees and the publication of notices in the Federal Register that identify, among other things:

The countries that are “candidate countries” for MCA assistance during fiscal year 2014 (“FY14”) based on their per-capita income levels and their eligibility to receive assistance under U.S. law, and countries that would be candidate countries but for specified legal prohibitions on assistance (section 608(a) of the Act (22 U.S.C. 7707(a)));

The criteria and methodology that the Board of Directors of MCC (the “Board”) will use to measure and evaluate the policy performance of the “candidate countries” consistent with the requirements of section 607 of the Act in order to select “MCA eligible countries” from among the “candidate countries” (section 608(b) of the Act (22 U.S.C. 7707(b))); and

The list of countries determined by the Board to be “MCA eligible countries” for FY14, with justification for eligibility determination and selection for compact negotiation, including with which of the MCA eligible countries the Board will seek to enter into MCA compacts (section 608(d) of the Act (22 U.S.C. 7707(d))).

This is the third of the above-described reports by MCC for FY14. It identifies countries determined by the Board to be eligible under section 607 of the Act (22 U.S.C. 7706) for FY14 and countries with which the MCC will seek to enter into compacts under section 609 of the Act (22 U.S.C. 7708), as well as the justification for such decisions. The report also identifies countries determined by the Board to be eligible for MCC’s Threshold Program under section 616 of the Act (22 U.S.C. 7715).

Eligible Countries

The Board met on December 10, 2013, to select countries that will be eligible for MCA compact assistance under section 607 of the Act (22 U.S.C. 7706) for FY14. The Board selected the following country as eligible for such assistance for FY14: Lesotho. The Board also reselected the following countries as eligible for FY14 MCA compact assistance - Ghana, Liberia, Morocco, Niger, and Tanzania. Two other countries currently developing compact proposals, Benin and Sierra Leone, were not put up for a vote. The Board discussed the fact that those two countries did not pass MCC’s control of corruption indicator, which is a hard hurdle for passing the scorecard, and did not put them to a vote on reselection. Guatemala and Nepal were reselected as eligible for threshold assistance.

Criteria

In accordance with the Act and with the “Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2014” formally submitted to Congress on September 19, 2013, selection was based primarily on a country’s overall performance in three broad policy categories: Ruling Justly, Encouraging Economic Freedom, and Investing in People. The Board relied, to the maximum extent possible, upon transparent and independent indicators to assess countries’ policy performance and demonstrated commitment in these three broad policy areas. The Board compared countries’ performance on the indicators relative to their income-level peers, evaluating them in comparison to either the group of low income scorecard countries (“LIC”) or the group of lower middle income scorecard countries (“LMIC”).

The criteria and methodology used to assess countries on the annual scorecards is outlined in the “Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2014.” Scorecards reflecting each country’s performance on the indicators are available on MCC’s website at www.mcc.gov/scorecards.

The Board also considered whether any adjustments should be made for data gaps, data lags, or recent events since the indicators were published, as well as strengths or weaknesses in particular indicators. Where appropriate, the Board took into account additional quantitative and qualitative information, such as evidence of a country’s commitment to fighting corruption, investments in human development outcomes, or poverty rates. For example, for additional information in the area of corruption, the Board considered how a country is evaluated by supplemental sources like Transparency International’s Corruption Perceptions Index, the Global Integrity Report, Open Government Partnership status, and the Extractive Industry Transparency Initiative, among others, as well as on the defined indicator. The Board may also take into account the margin of error around an indicator, when applicable. In keeping with legislative directives, the Board also considered the opportunity to reduce poverty and promote economic growth in a country, in light of the overall information available, as well as the availability of appropriated funds.

This was the fifth year the Board considered the eligibility of countries for subsequent compacts, as permitted under section 609(k) of the Act (22 U.S.C. 7708(k)). The Board also considered the eligibility of countries for initial compacts. The Board sees the selection decision as an annual opportunity to determine where MCC funds can be most effectively invested to support poverty reduction through economic growth in relatively well-governed, poor countries. The Board carefully considers the appropriate nature of each country partnership -- on a case by case basis - - based on factors related to economic growth and poverty reduction, the sustainability of MCC’s investments, and the country’s ability to attract and leverage public and private resources in support of development.

MCC’s engagement with partner countries is not open-ended, and the Board is very deliberate when determining eligibility for follow-on partnerships. In determining subsequent compact eligibility, the Board considered – in addition to the criteria outlined above – the country’s performance implementing its first compact, including the nature of the country’s partnership with MCC, the degree to which the country has demonstrated a commitment and capacity to achieve program results, and the degree to which the country has implemented the compact in accordance with MCC’s core policies and standards. To the greatest extent possible, this was assessed using pre-existing monitoring and evaluation targets and regular quarterly reporting. This information was supplemented with direct surveys and consultation with MCC staff responsible for compact implementation, monitoring, and evaluation. MCC published a Guide to the Supplemental Information Sheet and a Guide to the Compact Survey Summary in order to increase transparency about the type of supplemental information the Board uses to assess a country’s policy performance and compact implementation performance.

As with previous years, a number of countries that performed well on the quantitative elements of the selection criteria (i.e., on the policy indicators) were not chosen as eligible countries for FY14. FY14 was a particularly competitive year: seven countries are already working to develop compacts, four additional countries were within the window of consideration for subsequent compacts, multiple countries passed the scorecard (some for the first time), and funding was limited due to budget constraints. As a result, only one country that passed the scorecard was newly selected for MCC eligibility.

Countries newly selected for compact eligibility

Using the criteria described above, Lesotho is the only candidate country under section 606(a) of the Act (22 U.S.C. 7705(a)) that was newly selected as eligible for MCA assistance for a compact under section 607 of the Act (22 U.S.C. 7706).

Lesotho is a consistently strong performer on the MCC scorecard, passing for eleven consecutive years. Scorecards for Lesotho can be found here: www.mcc.gov/scorecards. Lesotho successfully completed its first \$363 million compact in September 2013, including the completion of work on multiple health clinics, 14 hospital outpatient departments, rural and urban water projects, and a private sector development project that expanded access to credit, as well as expanding women's participation in the formal economy. The Government of Lesotho was a strong compact partner, proactively addressing issues as they arose, managing to project timelines, and spending over \$50 million in additional funds from its own resources. Many of the initial compact investments target specific development challenges in Lesotho, including high rates of poverty and unemployment, and the third highest HIV/AIDS prevalence in the world.

During development and implementation of its first compact, Lesotho did not shy away from making necessary—and often tough—policy reforms. This included passing landmark legislation expanding the legal rights of married women, such as the right of married women to own property or enter into a binding contract for the first time. Other policy reforms include the legislation that created the Land Administration Authority; the credit reporting and data protection legislation; the National Identification Bill; and changes that benefit the Basotho people by improving health care, water access and the private sector environment.

Countries up for reselection to continue compact development

Five of the countries selected as eligible for MCA compact assistance in FY14 were previously selected as eligible. Reselection allows them to access compact funding from FY14. These countries include Ghana, Liberia, Morocco, Niger, and Tanzania.

The Board reselected these countries based on their continued performance since their prior selection. The Board determined that since their initial selection, there has been no material change in their performance on the indicator criteria that indicates a serious decline in policy performance.

Three countries (Ghana, Niger, and Tanzania) passed the scorecards. Two countries (Liberia and Morocco) passed 9 indicators in FY14, just below the 10 needed to pass the scorecard criteria. In these two cases, the apparent declines were caused by historical data revisions or methodological

changes from the indicator institutions. In neither case were the changes in scorecard performance due to policy declines on the part of the government. Due to this, the Board decided to reselect Liberia and Morocco, but expects to see those countries pass the scorecard before it would approve a compact in either country.

Two other countries currently developing compact proposals - Benin and Sierra Leone - were not reselected. The Board discussed the fact that both countries fell just below the median on Control of Corruption in FY14, and therefore did not meet the Control of Corruption hurdle. Because of this, the Board did not put them up for a vote for reselection. This means neither Benin nor Sierra Leone are currently eligible for FY14 compact funding. In these cases, the Board considered how the countries were evaluated by supplemental sources like Transparency International's Corruption Perceptions Index, the Global Integrity Report, Open Government Partnership status, and the Extractive Industry Transparency Initiative, as applicable. The Board also took into consideration recent actions by each government to address corruption. After accounting for this supplemental information, the Board directed MCC to continue a more limited engagement on compact development with both Benin and Sierra Leone and support their continued efforts to address corruption. The Board discussed the seriousness with which it takes the scorecard's hard hurdles and indicated that it expects both countries to pass the Control of Corruption indicator before it would approve a compact with them.

The Board asked all four countries that do not meet the scorecard criteria to work to improve their policy performance over the coming year.

Countries newly selected for threshold program eligibility

For FY14, the Board did not select any new countries as eligible for threshold assistance.

Countries reselected to continue developing threshold programs

Two countries selected as eligible for threshold assistance in FY14 were previously selected as eligible. Reselection allows them to access funding from FY2014. These countries are Guatemala and Nepal.

The Board reselected these countries based on their continued performance since their prior selection. The Board determined that since their initial selection, there has been no material change in their performance that would indicate a serious decline in policy performance.

Ongoing review of partner countries' policy performance

The Board also reviewed the policy performance of countries that are implementing compacts. These countries do not need to be reselected each year in order to continue implementation. Once MCC makes a commitment to a country through a compact, MCC does not consider the country for reselection on an annual basis during the term of its compact. The Board emphasized the need for all partner countries to maintain or improve their policy performance. If it is determined that a country has demonstrated a significant policy reversal, MCC can hold it accountable by applying MCC's Suspension and Termination Policy.

Selection to Initiate the Compact Process

The Board also authorized MCC to invite Lesotho to submit a proposal for a compact, as described in section 609 of the Act (22 U.S.C. 7708).

Submission of a proposal is not a guarantee that MCC will finalize a compact with an eligible country. Any MCA assistance provided under section 605 of the Act (22 U.S.C. 7704) will be contingent on the successful negotiation of a mutually agreeable compact between the eligible country and MCC, approval of the compact by the Board, and the availability of funds.

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